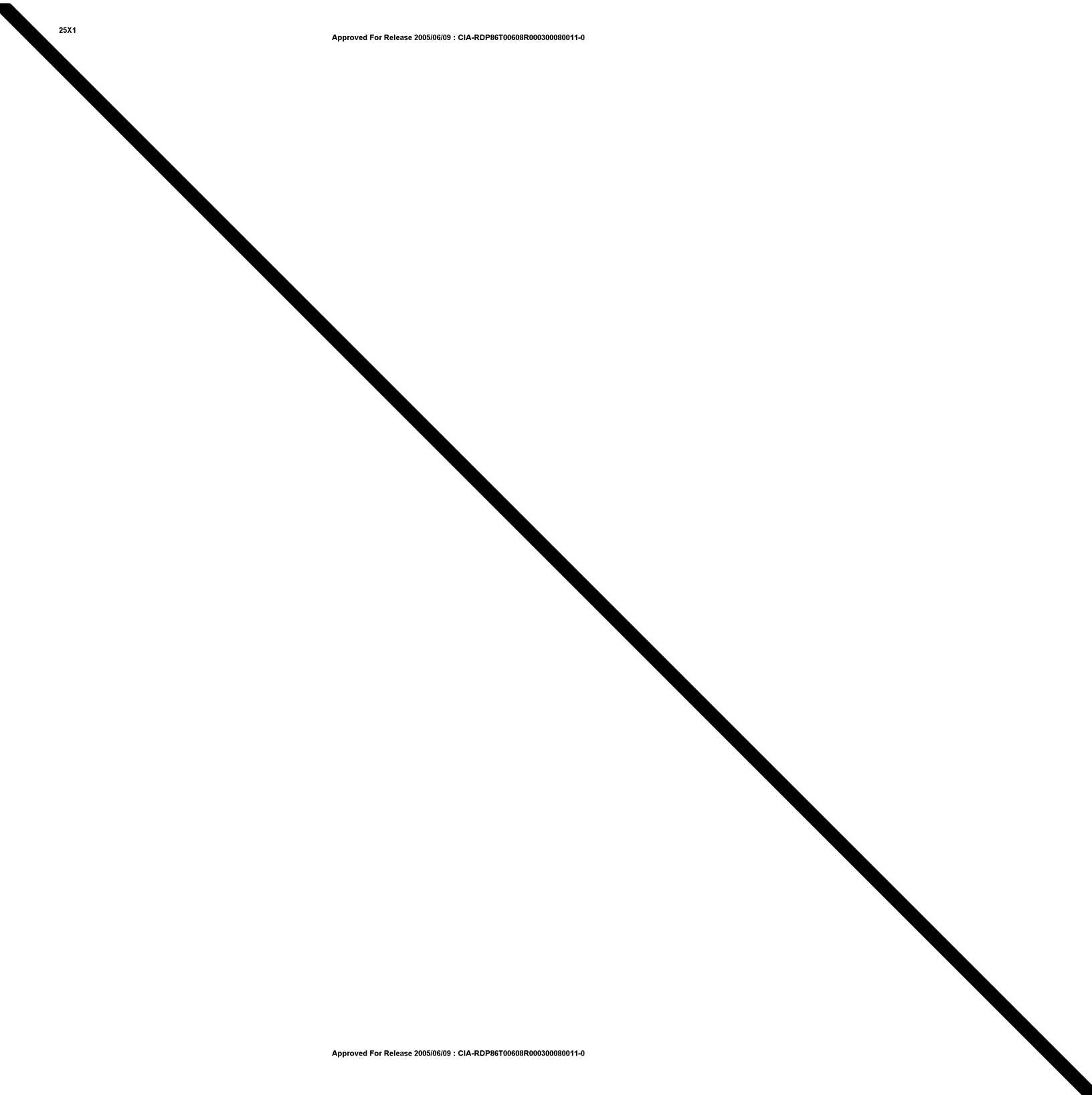

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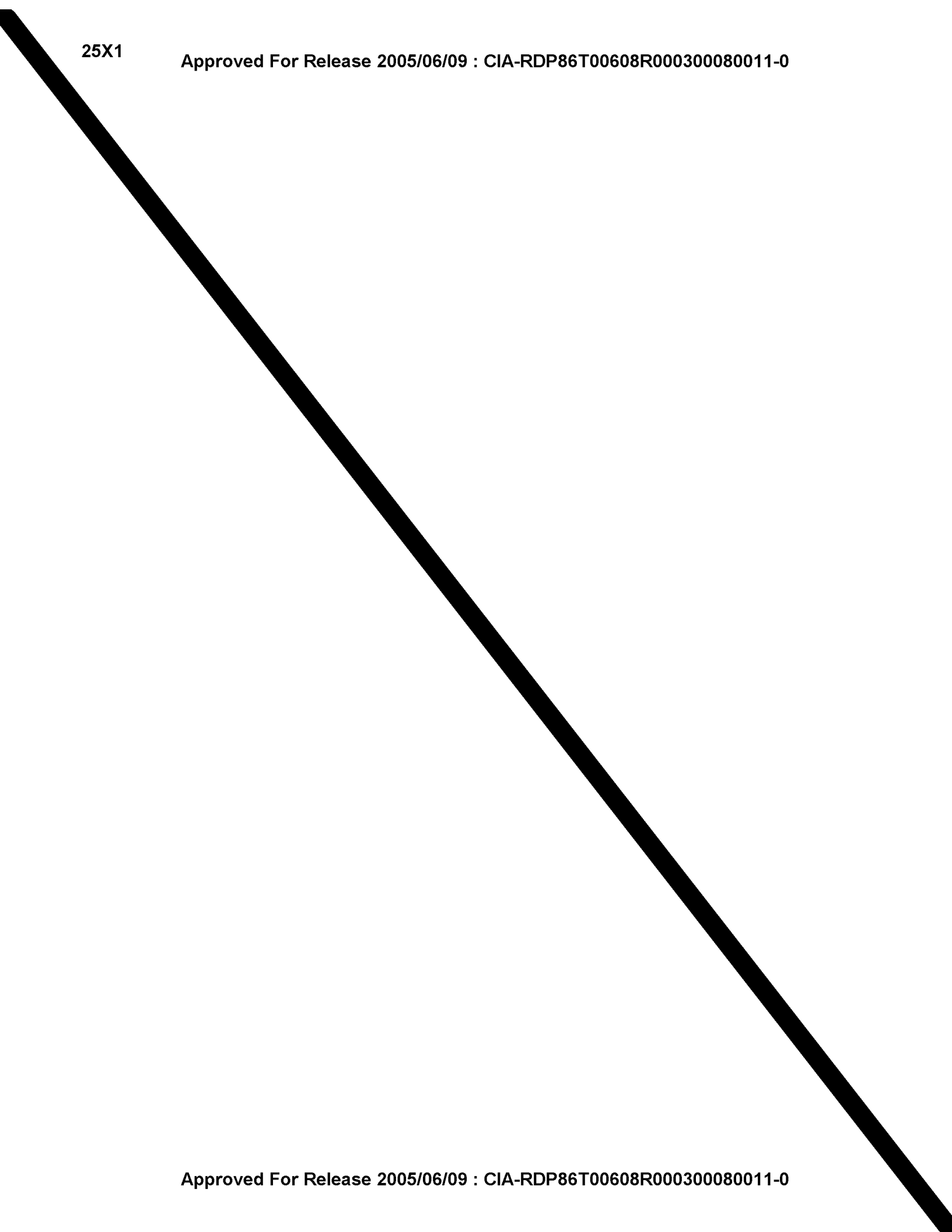

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Leadership Appearances: A Non-Pattern

A series of major events in Peking--the Kim Il-song visit, rallies in support of communist victories in Cambodia and Vietnam and May Day--brought most of China's leaders into public view. Not all leaders appeared at all events, however. Some failed to appear at events they would normally be expected to attend, and others appeared in unusual capacities at other festivities.

Among the more surprising inconsistencies was the non-appearance of Politburo member Chang Chun-chiao at the festivities surrounding Kim's visit and both the Cambodia and Vietnam rallies. Chang has often assumed hosting duties on behalf of visiting foreign communist delegations, but his absence from all functions associated with visiting communists raises questions about whether he has relinquished this role in light of his recent accumulation of other duties. Chang does not appear to be in any political trouble. He did appear on May Day, and his article in last month's issue of *Red Flag* continues to be cited frequently in the provincial propaganda, sometimes without reference to the earlier article by fellow Politburo member Yao Wen-yuan.

Yao emerged in an unusual role during the Kim Il-song visit, as the second-ranking participant in some of the substantive discussions between Kim and Vice Premier Teng Hsiao-ping. While Yao has often hosted visiting journalists on his own, this was the first time he is known to have taken part in substantive talks with a visiting head of state. Yao appeared at all of the recent events in the capital, somewhat overshadowing the nominal third man in the leadership, Wang Hung-wen.

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Wang was not present for Kim Il-song's arrival or departure, and, although he was the highest ranking Chinese leader at both banquets during the Kim visit, the speeches for the Chinese side were given not by Wang but by Teng Hsiao-ping. Wang's protocol ranking in the leadership obviously does not automatically entitle him to an important role in such major events as the visit of Kim Il-song. Moreover, despite his presence at both the Cambodia and Vietnam rallies, it was Defense Minister Yeh Chieng-ying, rather than Wang, who delivered the speeches.

The appearances of Chiang Ching seemed almost arbitrary. She was on hand to greet Kim Il-song but did not see him off. Although she rarely attends state banquets, she was present at the banquet for Kim but did not attend Kim's reciprocal banquet. She attended the Cambodia rally but not the Vietnam rally. Most startling of all she was the only major leader, other than Mao and Chou, to miss May Day. Her absence was made even more glaring by the presentation, given by some ten thousand cultural workers, of songs from the operas produced under her auspices. Radio Peking called the presentation "by far the biggest festival performance in Peking," begging the question of Chiang Ching's absence.

Taken together, the recent events in Peking and the leadership appearances associated with them may give some clues as to the relative importance of certain officials. Chiang Ching's political standing, as usual, remains hazy. Teng Hsiao-ping is clearly important, perhaps far more so than his sixth-ranking position in the leadership would suggest. By contrast, young Wang Hung-wen's performance to date does not seem to equal his standing as third in the leadership. The other members of the "second generation," particularly Chi Teng-kuei, who himself was tied up with the visiting Belgian prime minister

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but managed to appear at all the other events, are taking on greater responsibilities. Although this pattern has been discernible since the National People's Congress in January, the most surprising development is the role of Yao Wen-yuan during the visit of Kim Il-song. Yao has not seemed to figure greatly in the growing role of the second generation, but his future activities may merit close watching.

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May Day and the Military

Leadership appearances on May Day suggest that while party-army relations remain strained, civilian leaders in Peking and regional commanders have reached a certain accommodation. The campaign to strengthen the proletarian dictatorship, which has so far emphasized social order and production goals and has not been used as a means to attack the military, almost certainly appeals to the vast majority of military men on both counts. While provincial turnouts are incomplete, and some missing leaders are soldiers who hold party posts, most top ranking military men have been accounted for. One previously absent leader who had been heavily criticized, former Canton Military Region political commissar Jen Ssu-chung, has apparently been given a high ranking military post in the Tsinan Military Region. The effort to ease military men out of party and government posts continues, and with some success, but Peking's tactics are quite different than they were during the campaign to criticize Lin and Confucius. At that time, regional commanders were the targets of severe criticism, and seven of them were stripped of their provincial party posts in one bold stroke.

The current standing of the military is typified by the appearances of two military region commanders who are also politburo members. Shenyang commander Li Te-sheng led the turnout in Liaoning. Li, who lost his post as head of the PLA's General Political Department last year and was dropped from the politburo standing committee this year after running into serious trouble during the anti-Lin, anti-Confucius campaign, had been conspicuously absent from large turnouts in Liaoning in April to greet Kim Il-song on his arrival and departure from China. Li's political standing remains shaky, but he apparently remains Shenyang Military Region commander.

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Canton Military Region commander Hsu Shih-yu, who was reported to be visiting a "grassroots unit" on May Day, was the only one of the provincial-based politburo members who did not head a turnout in his provincial capital. The peculiar treatment accorded Hsu seems a sign of political weakness and serves to emphasize his separation from the locus of political power in the region. However, the party first secretary of Kwangtung was also absent from Canton, which tends to cloud the meaning of the turnout.

Other recent indicators are consistent with Peking's carrot-and-stick approach toward the military. Two provincial military figures who were heavily criticized last year and seemed likely purge candidates continue to appear in Peking. Han Hsien-chu, who was rotated from Fukien to Kansu, and Hsieh Chen-hua, who headed Shansi until a play produced there was branded a "poisonous weed," were listed among members of the party central committee appearing in the capital. Neither leader has appeared in his province in some time, but they have not yet been replaced, either.

Several military men were publicly rehabilitated or given active posts for the first time on May 1. Fu Chung-pi, who was Peking Garrison commander until his fall in the 1968 purge of acting chief of staff Yang Cheng-wu, is now listed with ranking officers of the Peking Military Region. A continuing relationship with Yang, who is now a deputy chief of staff, cannot be established, but Fu certainly has no strong ties to his superior, Peking Military Region commander Chen Hsi-lien. The appointment appears to be another example of the civilian leadership using checks and balances to control a politically sensitive military command. Another professional soldier who fell early in the Cultural Revolution, former artillery commander Wu Kuo-hua, has also returned to active

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ranks, while Tan Cheng, who was the head of the General Political Department and a vice-minister of defense in the 1950s, was listed as "attending" the festivities.

Pressure on the military nevertheless continues. Wu Hsiu-chuan, a former head of the party's International Liaison Department, is either a deputy chief of staff or, more likely, a deputy director of the General Political Department. In either case, Wu seems to continue the trend of placing putative civilians in high military posts. Moreover, domestic propaganda seems to be telling PLA men that they will no longer receive preferential treatment in the form of urban employment upon demobilization. Numerous articles also continue to emphasize that local military leaders are to support their party and government counterparts at all times.

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May Day in the Provinces

May Day turnouts in the provinces were considerably larger than a year ago when the anti-Confucius campaign was raging, but less impressive than those for National Day (October 1st) when a major effort was made to project an image of stability and unity. Accounts of this year's festivities are notable principally for their blandness.

There were no major surprises this year. No new first secretaries were named, nor were any purges revealed. Five provinces--Anhwei, Heilungkiang, Hupeh, Liaoning, and Shansi--still do not have a publicly identified first secretary, and civilians continue to head 16 of the 29 provincial-level units. Military men lead the other eight.

Anhwei, Chekiang, Fukien, and Kiangsu--four of the more troubled provinces--failed to publish detailed accounts of their local celebrations, indicating that the situation remains unsettled there. Heilungkiang, whose first secretary apparently was purged recently, also failed to provide a name list of those in attendance. Yunnan, on the other hand, turned out in force despite its continuing factional struggles.

A few provincial leaders appeared in Peking. Most notable were Jen Jung and Lu Jui-lin, the bosses of Tibet and Kweichow, respectively. Jen may be discussing Tibet's long-standing economic and supply problems with officials at the center. Lu may be in Peking to discuss Kweichow's persistent factionalism, although rumors of poor health necessitating trips to the capital for medical treatment continue to surface.

The strangest turnout was in Kwangtung where Chao Tzu-yang, the party boss, Hsu Shih-yu, Canton

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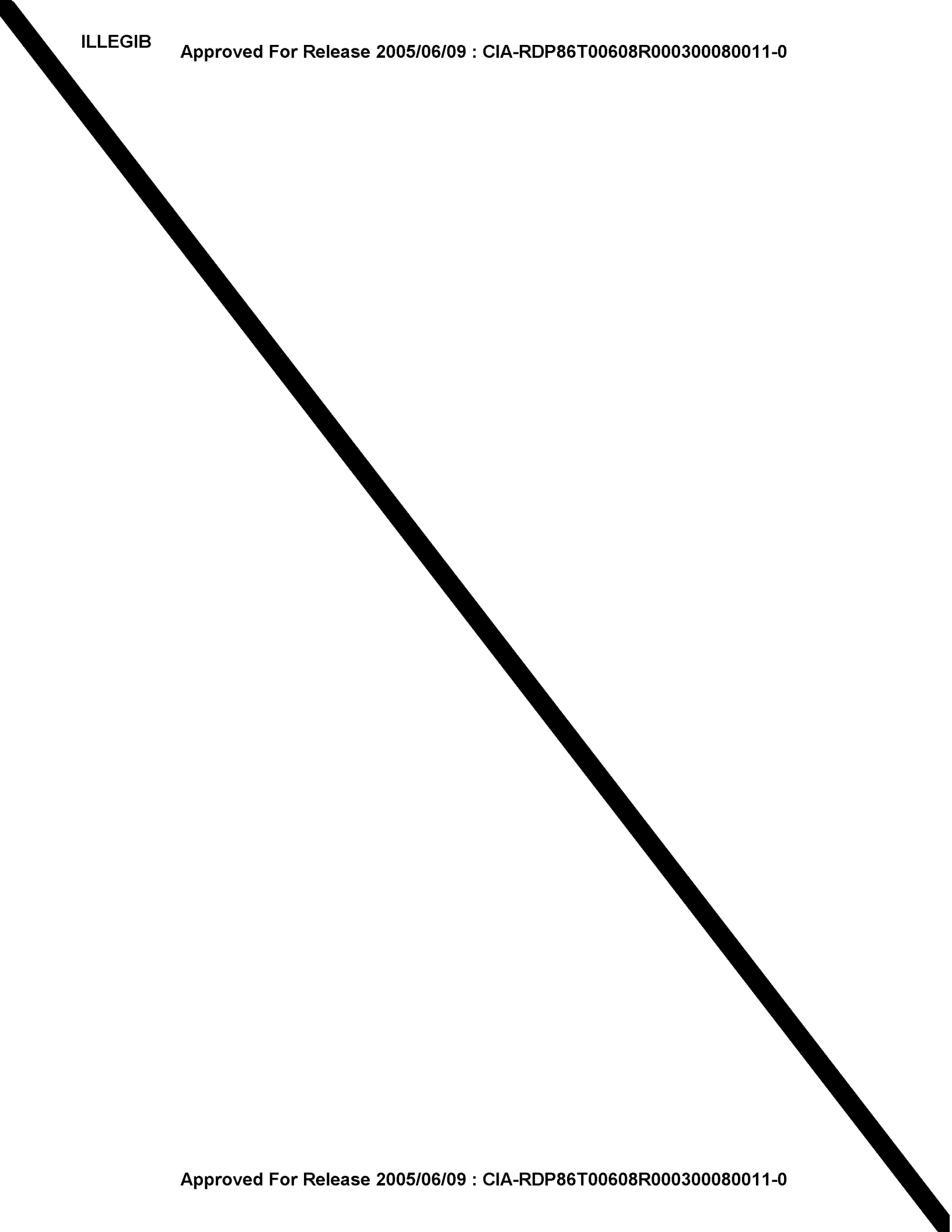

Military Region commander, and Chiao Lin-i, Canton's mayor, all failed to attend the provincial rally. Hsu was reportedly with a "grassroots unit" somewhere, but no effort was made to account for Chao's and Chiao's absence. There is no evidence to suggest that either man is in political trouble. In their absence, Kung Shih-chuan, the second ranking military man stationed in the province, led the turnout. Kung's role is mildly surprising because he was apparently stripped of his provincial party titles as a result of the anti-Confucius campaign, although he retained his military posts. It was apparently in that capacity--as well as a member of the Central Committee--that he led the turnout in Kwangtung.

The top party figures in Inner Mongolia and Tsinghai also missed local celebrations. As was the case in Kwangtung, no explanation was offered for their absence, and neither man seems to be in political difficulty. Inner Mongolia's number two man did attend the festivities in Peking as a member of the Central Committee.

May Day turnouts indicate that the campaign to study the proletarian dictatorship has had little, if any, effect on provincial leaderships so far. Both national and local leaders have successfully managed to keep the campaign focused on impersonal behavior patterns and away from the specific actions of individuals, including their own. [redacted] 25X1

25X1 [redacted] this phase of the campaign may be coming to an end, and that criticism of individuals--which could lead to changes in some of the less stable provinces--will begin shortly.

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Chiang Ching: Both a Legalist and a Confucianist Be

Although the anti-Confucius campaign has faded into the background, some discussion of the historical struggle between legalists and Confucianists continues to surface in the propaganda. Two such articles recently received in Washington seem to take opposing views of Chiang Ching.

Last year, Chiang Ching's supporters appeared to make a case for her to be chosen as Mao's successor by painting a favorable picture of Empress Wu, generally regarded as a terrible ruler. The spruced-up image of the empress, suddenly called a "legalist," was countered by wall posters that attacked Empress Wu and linked her directly to Madame Mao.

Chiang Ching's supporters evidently tried again in early January with another article on the virtues of the "legalist" empress. The timing of the article, just after the party central committee had completed a new slate of government officers that omitted Chiang Ching, may be significant. The article smacks of some vengeance over the obstacles Empress Wu/ Chiang Ching had to overcome to win positions of power.

In addition to repeating the earlier theme that Empress Wu ruled China well for many years after her husband's death, the article made some specific claims that seem to resemble more recent events. Striking what appeared to be a rather vindictive note, the article lashed out against the court elders who objected to the emperor's marriage to Wu and who vigorously defended the emperor's current wife as one who "should not be divorced lightly." The passage seems to refer to the controversy surrounding Mao's marriage to Chiang Ching, which many party officials opposed, and their support for his highly respected wife, Ho

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Tzu-chen, who had made the Long March. In its defense of Wu, the article noted the emperor was attracted to her because, among other things, she was "well versed in literature," apparently an allusion to Madame Mao's cultural aspirations.

The article also complained that those in power, including the court "secretary-general" and some who held important government positions, constantly conspired against her. Upon assuming the throne, the article noted that Empress Wu removed 36 such officials, including the prime minister. These actions were portrayed in the article as praiseworthy, legalist policies.

By contrast, an article in March on the struggle between Confucianism and legalism complained bitterly that the Confucianists used opera to attack the legalists, distort historical facts, and advance their own cause. Although the article was cast in historical terms and the operas attacked are ancient ones, the complaints could easily apply to the model operas created under Chiang Ching's guidance.

The article claimed that the operas glorified certain Confucianist figures, whose names were widely used in the anti-Confucius propaganda last year to represent Lin Piao, and eulogized historical generals who advocated policies of "national betrayal." Chiang Ching's operas, in fact, glorify some military men who undoubtedly were originally intended to represent Lin Piao, and several of her operas glorify the military in general. Last year's anti-Confucius propaganda, inter alia, accused not only Lin but some regional military commanders of harboring traitorous ideas.

The article noted that none of the old operas praised the major legalist figures and that one, "The Stubborn Prime Minister," even attacked a

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respected legalist. One of Chiang Ching's operas is open to similar charges. Perhaps somewhat akin to "The Stubborn Prime Minister," it not only does not praise Premier Chou En-lai but actually appears to denigrate him and portrays him as "stubborn."

Lest there be any doubt that the discussion of ancient operas has current relevance, the article accuses "Lin Piao and company" of using the Confucian practice of producing operas as "monuments" to themselves. Any operas created after Lin gained power in 1966 in fact were done so under Chiang Ching's tutelage. Consequently, the article's criticism of operas created by Lin "and company" can only refer to Chiang Ching's model operas.

Although the article lauds the "revolution in Peking opera," it attributes this not to Chiang Ching but to "the proletariat." It concludes with ritualistic praise for the model operas but calls for "continued effort" to root out Lin Piao's influence, particularly the distortion of history, in the cultural sphere.

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China: Tankers

Peking is making a major effort to expand its international tanker fleet. The fledgling fleet--600,000 dead weight tons acquired since mid-1974 for more than $150 million--could reach 1 million tons by the end of the year. Tankers account for about 80 percent of the international merchant fleet total tonnage purchased during the first four months in 1975. By world standards, it is a small fleet.

The newly acquired tanker fleet will carry an increasing share of China's growing petroleum exports. Crude oil deliveries totaling nearly 9 million tons are scheduled for this year--8 million tons of it to Japan--of which the Chinese may carry as much as one third. The fleet has already carried one million tons of crude to Japan since July. Chinese tankers will also participate in deliveries of 650,000 tons to the Philippines, with chartered tankers carrying the initial consignments.

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Indian Relations: Even More Sour

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Sino-Indian relations are likely to be quite frosty over the next few months, but the Chinese have not closed the door on eventual rapprochement. Peking's verbal reaction to what it sees as Indian moves to eliminate the remaining vestiges of Sikkimese autonomy has been strong. In the past several weeks, Sikkim's monarch has been removed from office with the assistance of Indian troops, and the parliament in New Delhi has passed a resolution approving statehood for Sikkim.

In a government statement issued on April 29, the Chinese bitterly denounced India, charging that it engineered the monarch's removal and that the parliament's decision is simply the "legalization" of Sikkim's annexation. This is the first time in nearly two years that Peking has expressed its views through a government statement, and it represents the highest level criticism of India since the India-Pakistani War of 1971. Peking's statement prompted New Delhi to issue one of its own, which accused the Chinese of interfering in India's internal affairs.

The language in the Chinese statement is the strongest used since Indian moves in Sikkim began to attract Peking's attention last summer. In this regard, the statement dwelt at greater length than past commentaries on Indian "expansionist" ambitions in South Asia.

As might be expected, the Chinese have ruled out--at least for the present--any improvement in Sino-Indian relations. Chinese diplomats are now saying privately that Vice Premier Chen Hsi-lien's friendly overtures toward the Indians in February carried no special significance.

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Chinese concern about Sikkim goes beyond the fact that India's strategic position has been strengthened at China's expense. Equally important is the belief that Sikkim is yet another Indian probe designed to test China's resolve to maintain the status quo in other parts of the buffer region. The Chinese may fear that anything short of a strong reaction could be misinterpreted in New Delhi as a lack of resolve on China's part. [redacted]

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The Sikkim developments were also a bitter pill for the Chinese because of the political context in which they came. Peking has been trying for a number of months to improve relations with New Delhi. The Chinese must have hoped that aside from serving their long-term interests, friendly overtures would also work to their advantage in the short term by providing an incentive to the Indians for restraint in Sikkim. New Delhi not only failed to respond favorably to China's overtures but it undertook rapid and blatant actions to incorporate Sikkim.

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Moreover, these moves came shortly after Soviet Defense Minister Grechko's trip to New Delhi. The Chinese are undoubtedly suspicious that a new arms deal was concluded

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and may now fear that India's coolness toward the Chinese overtures and its moves in Sikkim are part of a quid pro quo. Treatment of the Soviets in China's government statement seems to strengthen this interpretation. The statement goes beyond previous comment and labels Moscow the "main threat" to the sovereignty of South Asian countries and the "most dangerous enemy" of the people of the region. In the past, India and the Soviet Union were held equally culpable for Indian actions.

Despite profound unhappiness over Sikkim, however, the Chinese continue to display interest in eventual rapprochement.

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Foreign Minister Chiao Kuan-hua told

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that, at present, relations with India are "neither very good nor bad" and that in the long term relations will be "good."

--Although Peking protested to the Indians over anti-Chinese demonstrations which came in the wake of China's government statement, Peking did not publicize the issue in an obvious effort to keep polemics from escalating further.

--During his recent trip to Pakistan, Vice Premier Li Hsien-nien reassured Islamabad of continuing Chinese support in the face of developments in Sikkim, but left little doubt

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that Pakistan would have to prepare itself for some measure of Sino-Indian rapprochement. In this regard, Li urged Islamabad to continue to repair its differences with New Delhi; this, of course, would help to remove stumbling blocks to improved Sino-Indian relations.

At this point, China's dilemma is how to increase its leverage vis-a-vis India without jeopardizing hopes for better ties in the future. The options are few. 25X1

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For the next few months, the Chinese can be expected to consolidate, to some extent, relations with Pakistan and Nepal. There may even be some movement toward normalizing ties with Bhutan. At the same time, Peking and New Delhi will probably continue their battle of words while carefully monitoring each other's actions. While Sikkim has done much to fire suspicions between China and India, statehood has gutted the issue as a future irritant. Whether some form of rapprochement is possible, after the heat of the issue subsides, will probably rest heavily on Indian behavior in the buffer state region during the next several months.

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Equally important will be how the Chinese view relations between Moscow and New Delhi. At present, Peking continues to maintain that there are inherent conflicts in the Soviet-Indian relationship which will become increasingly apparent. However, China's treatment of the Soviets in its government statement on Sikkim hints at some reservations about this assumption. If India should appear to the Chinese over the next several months to be making political concessions to Moscow in return for military aid--an unlikely course--Peking may decide that rapprochement is a futile pursuit which hazards more than its promises.

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Another Hat for Chen Hsi-lien

Peking regional military commander Chen Hsi-lien has added another job to his growing list of responsibilities. The only military man among the newly appointed vice premiers of the government, Chen was identified on May 11 as a member of the Military Commission, the organization through which the party maintains its control over the military. Radio Peking coyly refrained from specifying whether Chen is a "leading member" of the Military Commission or "the" leading member. The distinction is important because he could either be one of several vice chairmen of the commission or the ranking vice chairman, a job generally thought to belong to Defense Minister Yeh Chien-ying.

Despite Yeh's presence at the military sports meet at which Chen's new job was publicly revealed, it was Chen rather than Yeh who gave the opening address. Chen welcomed the participants "on behalf of the Chinese PLA," the only military leader other than Yeh Chien-ying to use those words since the fall of Lin Piao. Chen's speech dwelt on military training and preparedness and made no reference to a political role for the PLA.

Chen seemed to clash with moderate leaders in Peking when he led an attack during the summer of 1973 on the use of university entrance examinations. He was also attacked by historical analogy during last year's anti-Confucius campaign. Since that time, however, he has performed well in his capacity as vice premier and has shown no recent signs of opposition to current moderate policies. His apparently docile behavior in recent months can perhaps best be explained by the number of new jobs he has been given. He was transferred to Peking in the rotation of military commanders at the end of 1973, thereby bringing

him to the center of political power, allowing him to participate in the national government, and giving him an opportunity--possibly limited when he was stationed in Liaoning--to be present at all Politburo meetings. The range of Chen's current jobs suggests that he is one of the most important members of the regime.

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ANNEX

25X1 China's Grain Import Policies

Since 1961, China has regularly imported large quantities of grain to maintain rations in northern cities. Initially, short-term purchases of wheat were made as an emergency measure, following the collapse of the Great Leap Forward. Imports became a permanent feature of Chinese policy when it became apparent that agricultural development was lagging in the North China Plain. In the winter of 1963/64 and again in 1966 long-term (3-year) purchase agreements were signed with Canada and Australia.

New investment flowed into agriculture in the 1960s, and by the end of that decade the government apparently was confident that the gap in grain output would soon be closed. Upon the completion of the long-term agreements with Canada and Australia, Peking reverted to a short-term import policy. In the fall and winter of 1969, the Chinese began to contract for grain to satisfy minimum projected requirements and then, if required, planned to supplement these purchases with short-term purchases the following year. In late 1969, one-year contracts were signed with Canada and Australia. In 1970 and again in 1971, China purchased from Canada exclusively, ostensibly because of Peking's dissatisfaction with Canberra's failure to grant diplomatic recognition. In 1971, grain imports fell to only 3.03 million tons, less than one half the record 6.31 million tons purchased in 1964 and substantially below the trend established over the prior decade. (See table.)

Still another turnabout in China's import policy began to emerge in late 1972. Crop prospects in North China deteriorated rapidly in the

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China: Imports of Grain,
Calendar Years, 1961-75
(Million Metric Tons)

Year	Total 1/	Canada	Australia	Argentina	France	United States	Other
1961	5.56	2.26	2.57	0.37	0.26	0	0.10
1962	4.60	2.01	1.23	0.53	0.23	0	0.33
1963	5.45	1.43	3.00	0.04	0.31	0	0.14
1964	6.31	2.07	2.23	1.41	0.23	0	0.37
1965	5.91	1.60	2.80	1.50	0.11	0	0.04
1966	5.59	2.57	1.31	1.60	0.11	0	0.40
1967	4.94	1.38	2.36	0.10	0.60	0	0
1968	4.36	2.17	1.59	0	0.33	0	0
1969	3.91	1.73	1.95	0	0.45	0	0
1970	4.61	1.97	2.22	0	0	0.95	0
1971	3.03	3.01	0.01	0	0	4.13	0
1972	4.84	3.88	0	0	0.21	2.73	0
1973	7.68	2.54	0.80	0.15	0	4.15	0
1974	7.01	1.90	1.39	0.73	0	3.00	0
1975 (Prelim)	4.40	2.20	1.40	0.30	0	0.50	0

1/ Total by source may not add due to rounding.

late summer of 1972, forcing Peking to seek grain for immediate delivery. The timing could not have been worse. World supplies of grain for export were the lowest in years; deliveries from Canada--China's sole supplier at the time--were snarled by a Canadian dock strike, and harvest prospects were uncertain in all major grain exporting countries except the US. In September 1972, the Chinese purchased 585,000 tons of US wheat through a third country trader as a stopgap until deliveries from traditional suppliers could be resumed.

Beginning in mid-October 1972 the Chinese, following their normal practice, began to purchase grain for delivery in 1973. The initial purchase was for 1.0 million tons of Australian wheat--the first contract signed with that country since 1969--followed by a contract for 1.7 million tons of Canadian wheat. Almost before the ink was dry on these contracts, the Chinese were informed that Australian deliveries would be halved because the harvest was lower than expected, and the continuing dock strike in Canada would also likely force additional cutbacks in deliveries from Ottawa. To make matters worse, inclement weather continued to take a heavy toll of the grain harvest in north and northeast China. Thus, the Chinese were forced to turn to the US for a second time, this time for 575,000 tons of corn which was cheaper and more readily available than wheat.

By entering the market when international stocks were near rock bottom, the Chinese were forced to scrounge for grain and pay inflated prices. Peking was determined not to get caught short again. In the winter of 1972, the Chinese began to purchase grain to cover the maximum rather than the minimum projected requirements for 1973.

In late 1972 and early 1973, Peking purchased 13 chemical fertilizer plants from the west; the

Chinese expect to achieve self-sufficiency when these plants become fully operable about 1977. To ensure grain imports in the interval before the fertilizer plants come on stream, Peking signed three-year purchase agreements with Canada, Australia, and Argentina in late 1973 to buy a total of from 3.8 million to 4.8 million tons annually during 1974-75. These purchases are supplemented with short-term contracts as needed.

The Chinese apparently contracted for more grain in late 1972 and early 1973 than they could cope with financially or logistically. Record deliveries of grain and other agricultural commodities exceeded the capacity of northern ports, especially during the winter months. By November 1973, long lines of ships began to queue up at northern ports awaiting discharge. Some vessels were unable to berth for 2 or 3 months after arriving off the coast of China, a costly oversight considering the daily demurrage charge for each vessel exceeded $5,000.

Peking began to look for excuses to postpone or delay grain deliveries without being forced to pay penalties for contract violation. Peking was especially anxious to force a postponement in deliveries from the US, by far China's leading supplier at the time. In October, 1973, Peking began to complain that much US wheat was contaminated with a rare and relatively harmless smut, TCK, and that the moisture content of US corn was too high, thereby causing problems for human consumption. In February 1974, the Chinese rejected several cargoes of US wheat and in April failed to arrange shipping for several cargoes of US corn. The traders suspended deliveries of US wheat until a solution could be worked out. The Chinese refused offers of cancellation and also rebuffed offers of consultation until after the port congestion had subsided.

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Peking shifted gears in May and June 1974. An agreement was worked out to resume shipments of US wheat; shipping was provided for US corn; and a series of new contracts were signed for US, French, and Canadian grain, increasing total purchases for 1974 delivery to 9.5 million tons. Deliveries of this magnitude--about 1.0 million tons each month--would again have exceeded China's port capacity. But another problem had surfaced. The terms of trade had turned against Peking. Total imports were at an all time high while markets for China's major exports had softened, giving rise to foreign exchange difficulties.

Peking's initial reaction was to postpone deliveries. In all, about 2.5 million tons of grain--divided among all of China's suppliers--were carried over into 1975. Peking had contracted for US wheat in the winter and early summer of 1973-74 when international prices were high. In January 1975, international markets weakened, prices declined, and additional price cuts were expected. Thus, when the world price dipped below the contract price for US wheat in late January 1975, Peking decided to cancel all outstanding contracts for US grain. In all cancellations the Chinese agreed to pay the trader the spread between the contract price and world price on the day of cancellation. At the same time the Chinese claimed damages for unsatisfactory grain already delivered, reducing actual payments from about $11.5 million to about $650,000.

Peking is not likely to abrogate the 3-year purchase agreements with Canada, Australia, and Argentina. However, the agreements were recently modified to provide for split year deliveries, April-March in place of the customary calendar year.

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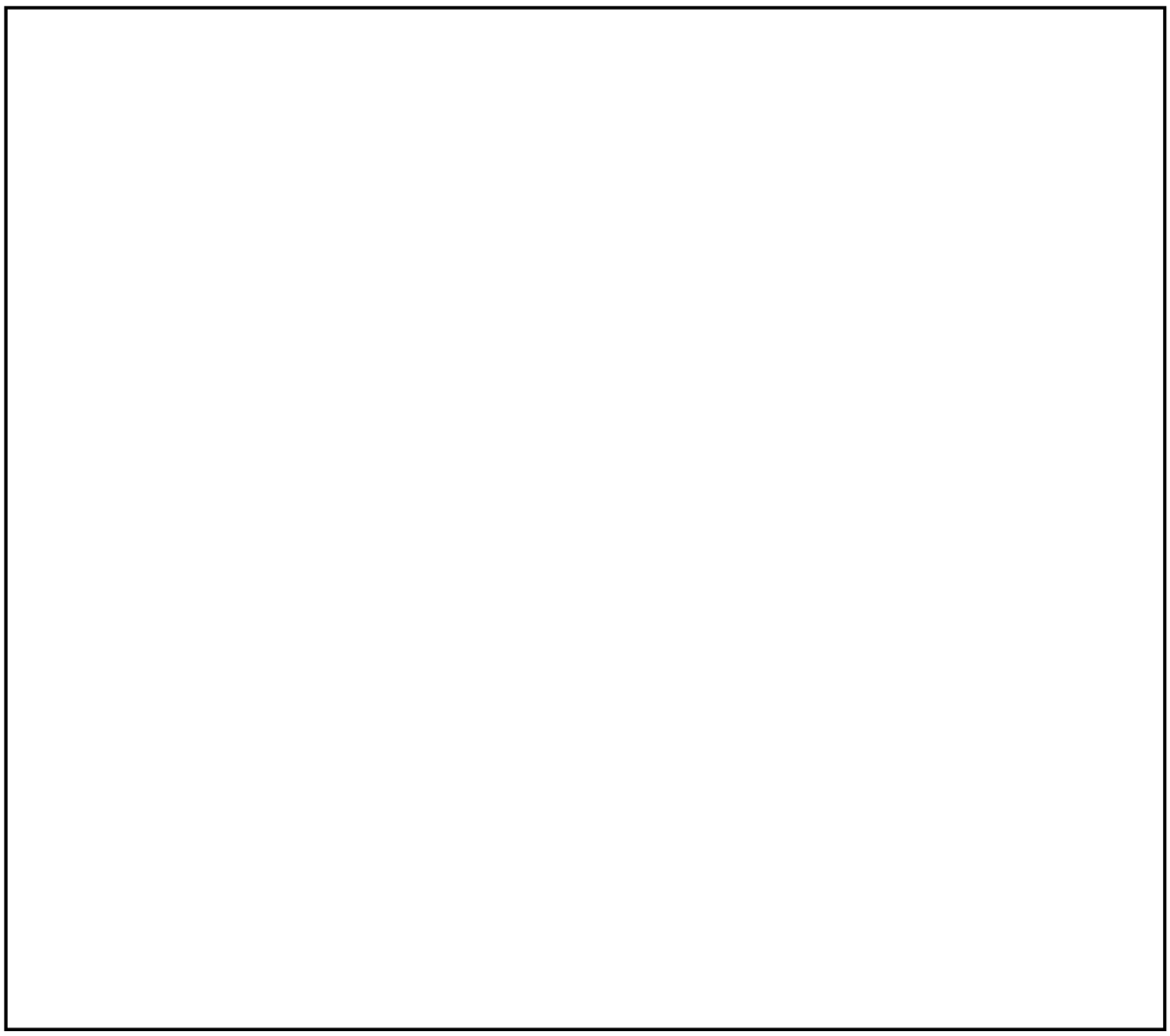

Peking's buying intentions beyond 1976 are unclear. It is unlikely that all of the new fertilizer plants will be in full operation by 1977 as planned. Thus, China will probably require grain imports until at least the end of this decade. A top Peking trade official recently remarked that China would continue to buy grain for a number of years to come. The Chinese now view the US as a residual source to be tapped only if a string of

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poor harvests are encountered. However, in view of past experiences, traders may be reluctant to provide US agricultural commodities unless Peking is willing to agree to quality guarantees above those provided in the standard grain contract.

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CHRONOLOGY

April 17-28 Members of the Soviet border negotiating delegation tour several Chinese cities at invitation of the Chinese government. 25X1

April 19 Chinese and North Vietnamese sign annual border railway protocol. 25X1

April 20 Vice Foreign Trade Minister Chen Chien signs protocol for 1975 trade between China and Mongolia in Ulan Bator. 25X1

April 25 Japanese economic delegation arrives in China. 25X1

Director-General of the Japan-China Friendship Association arrives in Peking. 25X1

April 27 Vice Foreign Minister from El Salvador arrives in Peking. 25X1

April 28 Kuomintang Central Committee meets in special plenary session in Taipei; elects Chiang Ching-kuo chairman and issues manifesto on future party work. 25X1

April 29 Japanese Socialist Party parliamentary delegation arrives in China. 25X1

Chinese friendship delegation departs for visit to North Korea. 25X1

China issues government statement denouncing India for its Sikkim policy. 25X1

Mexican trade delegation arrives in China. 25X1

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April 29 - May 4 — Shantung holds its Peasants' Congress, becoming the ninth province to rebuild this mass organization.

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April 30 - May 1-2 — Mao, Chou En-lai and Chu Te send congratulatory message to PRG and North Vietnamese leaders on the fall of Saigon. Teng Hsiao-ping delivers message to Vietnamese Communist embassies in Peking. Yeh Chen-ying speaks at rally in Peking attended by Teng and lesser members of leadership.

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May 1 — Trade promotion group from China departs for visit to Bahrain.

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May Day celebrated with leadership appearances in the parks; Mao, Chou, and Chiang Ching were only notable absentees.

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May 4 — 56th anniversary of May 4th student movement goes unmentioned in national media.

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May 4 - 8 — Common Market official Christopher Soames visits China; meets with Foreign Minister Chiao Kuan-hua and Foreign Trade Minister Li Chiang. 25X1

May 5 — Japanese Socialist Party delegation arrives in Peking. 25X1

Chief Soviet border negotiator Ilichev returns to Moscow after three months in Peking. 25X1

May 8 — Economic delegation from Trinidad and Tobago, led by minister of industry and commerce, arrives in China. 25X1

May 11 — Chen Hsi-lien identified as "leading comrade" of the party's Military Commission. 25X1

May 12 — Teng Hsiao-ping and Chiao Kuan-hua begin an official visit to France. 25X1

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